



## Item No. 4 Town of Atherton

### FINANCE COMMITTEE STAFF REPORT

**TO: FINANCE COMMITTEE**

**FROM: ROBERT BARRON III, FINANCE DIRECTOR**

**DATE: MARCH 9, 2021**

**SUBJECT: PRESENTATION BY INSIGHT ASSET MANAGEMENT INVESTMENT PROGRAM REVIEW OF THE TOWN. REVIEW STATEMENT OF INVESTMENT POLICY AND IF APPROPRIATE MAKE RECOMMENDATIONS OF CHANGES TO STATEMENT OF INVESTMENT POLICY FOR CITY COUNCIL APPROVAL**

#### **RECOMMENDATION**

Review the investment program with Insight Asset Management Group and review statement of investment policy, if appropriate discuss and make recommendation of changes to the Statement of Investment Policy for city council approval.

#### **BACKGROUND**

Dave Witthohn, Senior Portfolio Manager for Insight investment is here today to discuss our January 2021 investment portfolio program, and provide an outlook of the economy, market environment, and strategies due to COVID-19. Staff also returns with the Investment Policy for review by the Finance Committee as to ensure consistency with overall investment objectives. As of January 31, 2021, the total investment portfolio for the Town is \$15,794,909 as illustrated in the Insight investment review book. The Town has an additional \$21,636,816 in LAIF and operating account of \$4,427,680 with an approximate total cash and investment of \$41,859,405.

Staff is returning with the Investment Policy for review as is required at least annually, for possible recommendations of changes to the policy. The policy is well established and positioned providing investment avenues for the Town. *Staff believes one minor change to the policy is adequate at this time.* Due to liquidity needs with the Town Center project, staff recommends the limit on money market funds increase from 20% to up to 50%.

The main objectives of Town investments include preservation of capital and protection of investment, maintenance of appropriate liquidity to meet cash flow needs, attainment of market rate of return, and diversification. The Town's main types of instruments for investments include United States Treasury Bills, Federal Instrumentality, Medium Term Notes (corporate bonds), and State of California's Local Agency Investment Fund (LAIF).

The last change made to the policy included updating the minimum investment requirement on investing in AA for Medium-Term Notes to "A" ratings (page 3 of the policy). This rating

covered the entire range of A rated securities from A1, A2, A3. Staff felt that making minor changes to the Medium-term corporate investments was appropriate for diversification and liquidity needs in the portfolio. This was part of staff's review with our asset manager (Insight Investments) looking for opportunities to continue optimum investments within our portfolio.

Staff recommends adjusting the limit on money market funds (page 5 of the policy) *between 40% to 50%* to alleviate compliance with ability to maintain cash in money market fund due to the liquidity needs for the Town during this time. Recommendation is to:

- update the aggregate investment in money market funds shall not to exceed up to 50% of Town's total portfolio. (page 5 of policy). This allows the ability to maintain funds in money market for liquidity needs as investments mature and not reinvested.

Staff is continuing to monitor the expenditure of funds for operational needs and ensuring there is enough liquidity of cash available for the Town Center project. Our current portfolio market value is approximately \$15.8 Million as of January 2021. In observing the needs of cash resources for the Civic Center project in the next 12 months, staff is investing in shorter duration of investments and shifting funds to more liquid instruments. The Town expended all its COP proceeds in November 2020. Total *estimated* remaining construction costs for the Town Center is \$7,602,160 and a contingency & FF&E of \$1,647,000. *When we near the end of liquidity needs for the project, staff looks to reinvest cash in longer duration investments.* During the 2021 calendar year \$10.1 million of investments mature.

***If appropriate, staff is recommending the Committee to accept the suggested minor changes to the policy and make a recommendation to City Council to approve changes.***

#### **ATTACHMENTS**

Insight Investment -Town Investment Review Book  
Statement of Investment Policy

FOR PROFESSIONAL CLIENTS ONLY  
NOT TO BE REPRODUCED WITHOUT PRIOR WRITTEN APPROVAL  
PLEASE REFER TO ALL RISK DISCLOSURES AT THE BACK OF THIS DOCUMENT

# Town of Atherton

Investment management program review

David Witthohn, CFA, CIPM, Senior Portfolio Manager

March 2021



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Performance presented is that of Insight Investment and should not specifically be viewed as the performance of Insight North America LLC. Please refer to the important disclosures at the back of this document.

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10. Important disclosures

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## Market environment and strategies

## Q4 2020 summary

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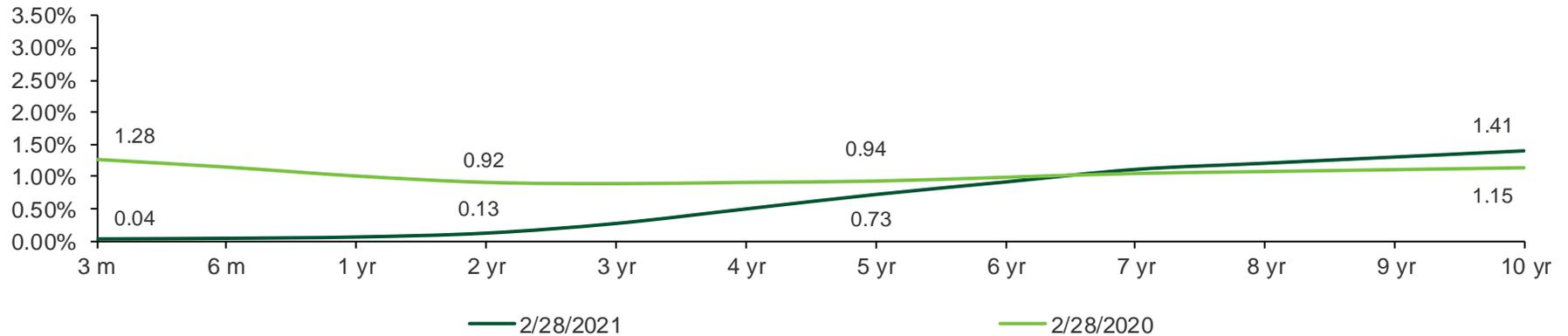
- **Markets became significantly more optimistic in Q4:** Hope returned to markets in Q4, with announcements from several major pharmaceutical companies that effective vaccines for the coronavirus were available for widespread distribution. Against this backdrop the S&P 500 Index rose to all-time highs, and this supported risk assets generally.
- **New president means new policies:** We expect an additional stimulus package in the \$500bn to \$1 trillion range, a normalization of relations with the EU, and a focus on climate change. Pressure on China should remain, though the approach is likely to be more multilateral.
- **The yield curve steepened as sentiment improved:** The Treasury yield curve steepened over the quarter as shorter maturities remained anchored by Fed policy, but longer-maturity yields rose as risk sentiment improved. The 2-year maturity Treasury was unchanged at 12bp, the 10-year maturity Treasury yield rose by 23bp to 0.92% and the 30-year maturity Treasury yield rose by 19bp to 1.65%.
- **Credit spreads rallied towards pre-crisis levels:** Credit spreads tightened in Q4, with aggregate US corporate spreads ending the quarter 40bp tighter. The long area of the credit curve outperformed, tightening by 48bp. BBB-rated issues and high yield generally outperformed given the more positive outlook. Cumulative investment grade credit gross issuance reached \$2.1 trillion over 2020, breaking above the previous annual high of \$1.47 trillion set in 2017.
- **The S&P 500 Index broke to record highs:** US equity markets experienced a strong quarter, driven by a rotation from tech to value as vaccines boosted hopes for a “return to normal.”
- **Risks include:**
  - Pressure to increase corporate leverage in a world of ultra low yields could lead to credit downgrades
  - Virus mutations that impair vaccine efficacy
  - Valuations may have already priced in much of the good news

# Market environment and strategies

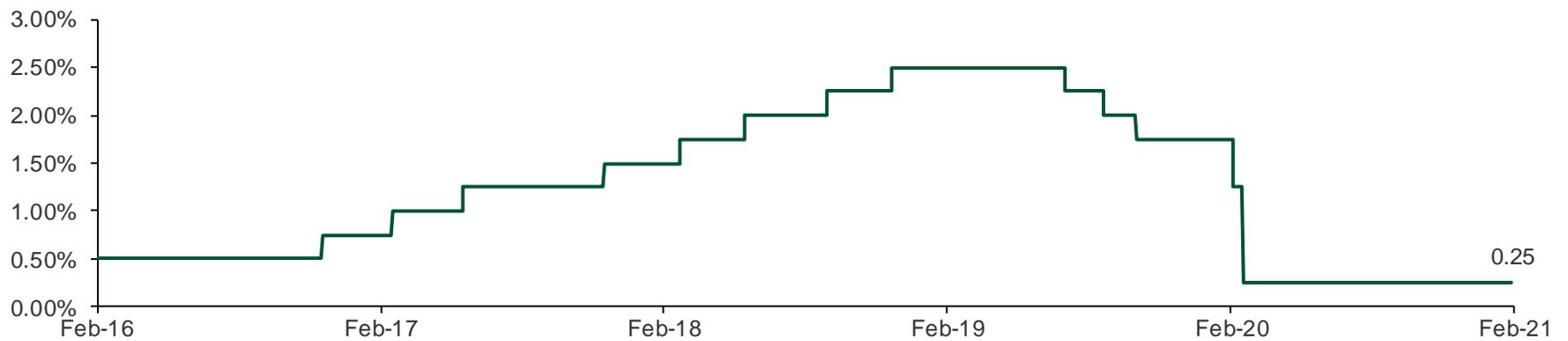
## US economic indicators



### Comparative historical yield curves



### Fed funds target rate



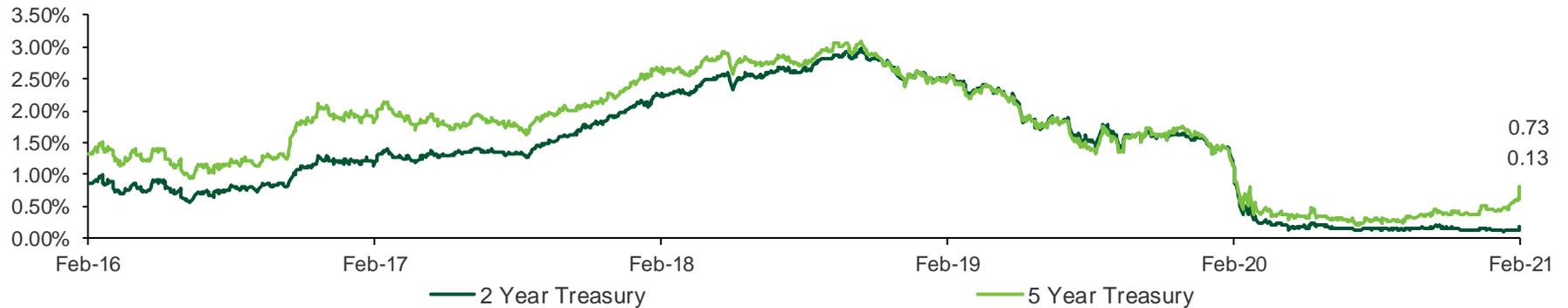
Source: Bloomberg LP, February 28, 2021.

# Market environment and strategies

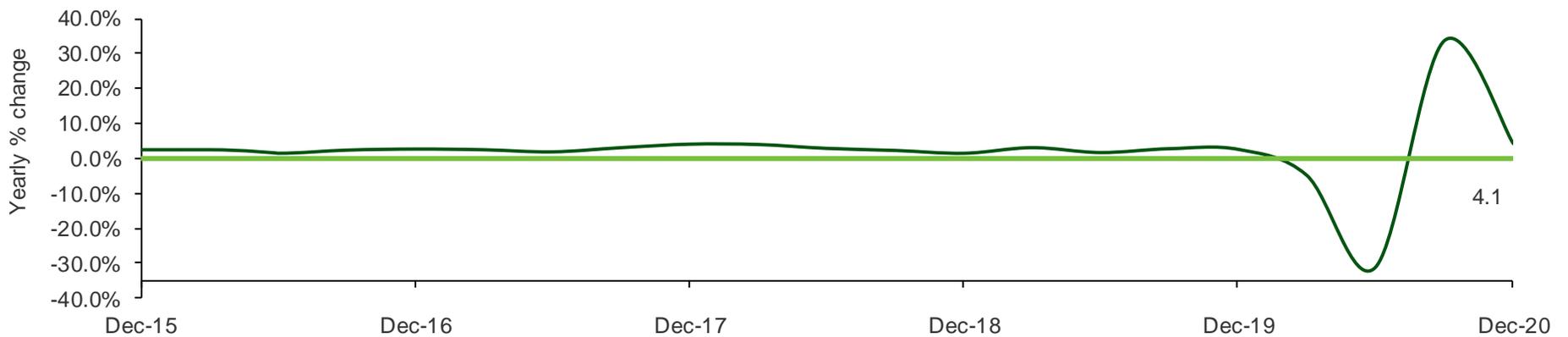
## US economic indicators



### Two-year and five-year Treasury yields: January 2015–2020<sup>1</sup>



### Gross domestic product (GDP)<sup>2</sup>



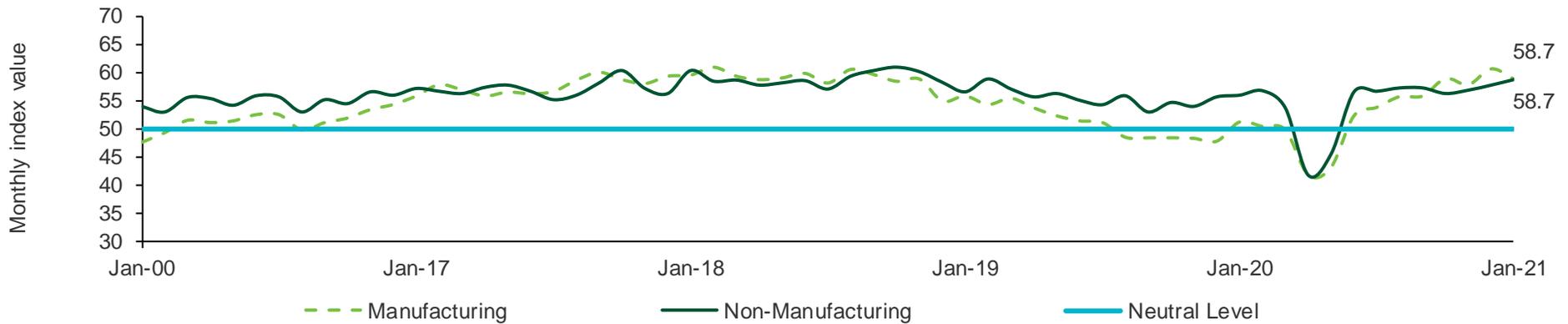
Source: Bloomberg LP. 1 February 28, 2021. 2 December 31, 2020.

# Market environment and strategies

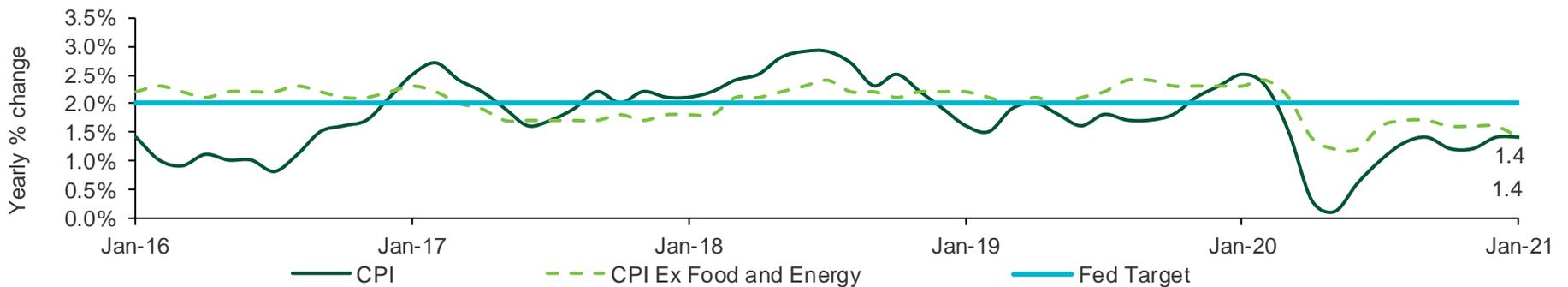
## US economic indicators



### Institute for supply management manufacturing and non-manufacturing business activity<sup>1</sup>



### Consumer price index (CPI)<sup>2</sup>



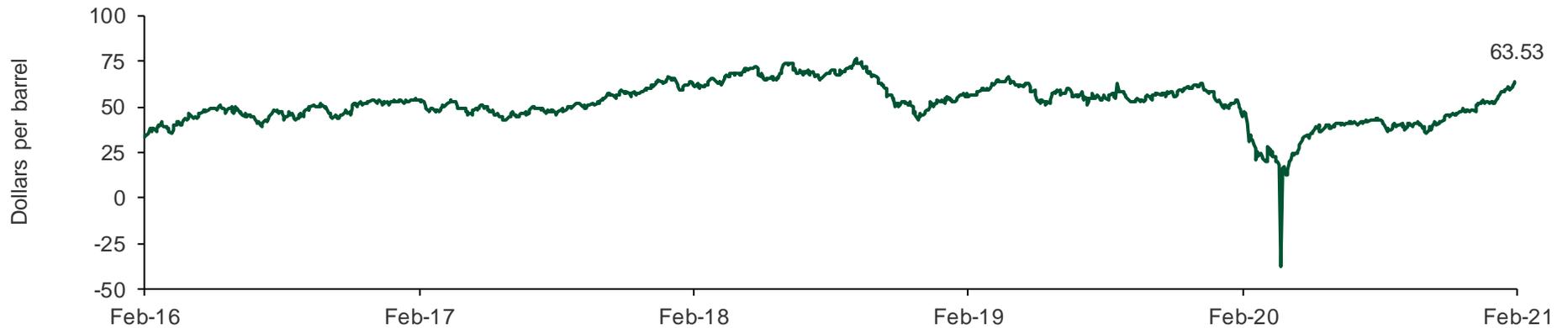
Source: Bloomberg LP . 1 January 31, 2021. 2 December 31, 2020.

# Market environment and strategies

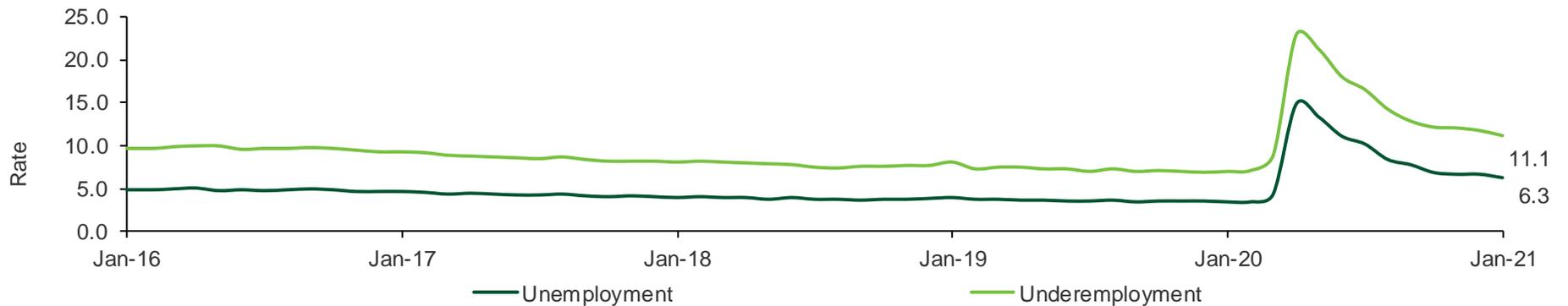
## US economic indicators



### Crude oil<sup>1</sup>



### Unemployment and underemployment<sup>2</sup>



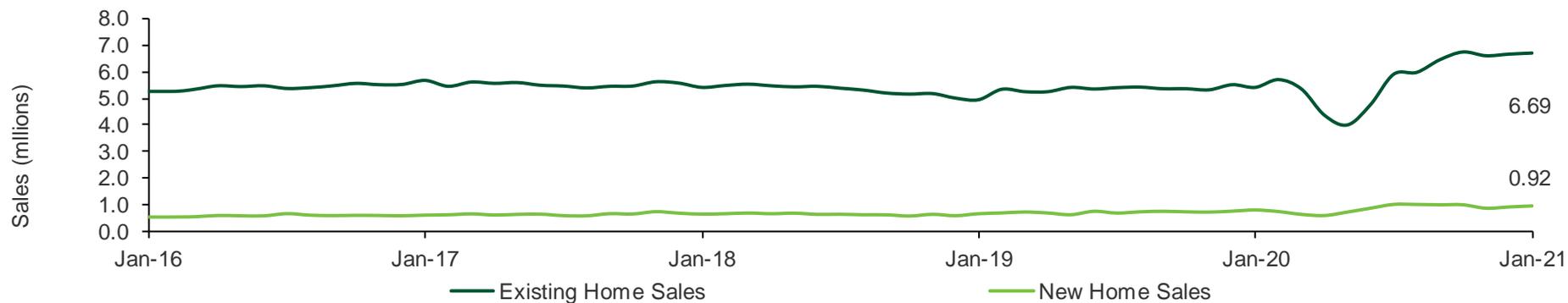
Source: Bloomberg LP, 1 February 28, 2021 2January 31, 2021

# Market environment and strategies

## US economic indicators



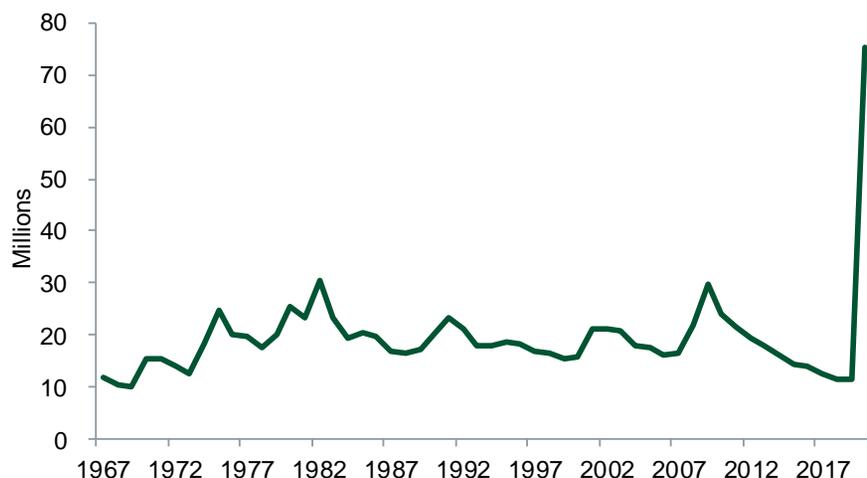
### New and existing home sales



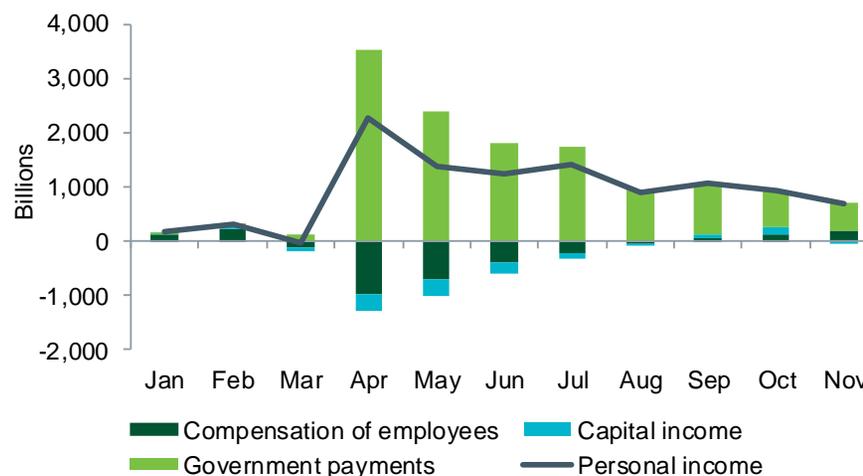
Source: Bloomberg LP, January 31, 2021 .

# 2020 – a year like no other...

## Annual initial jobless claims



## 2020 personal income growth



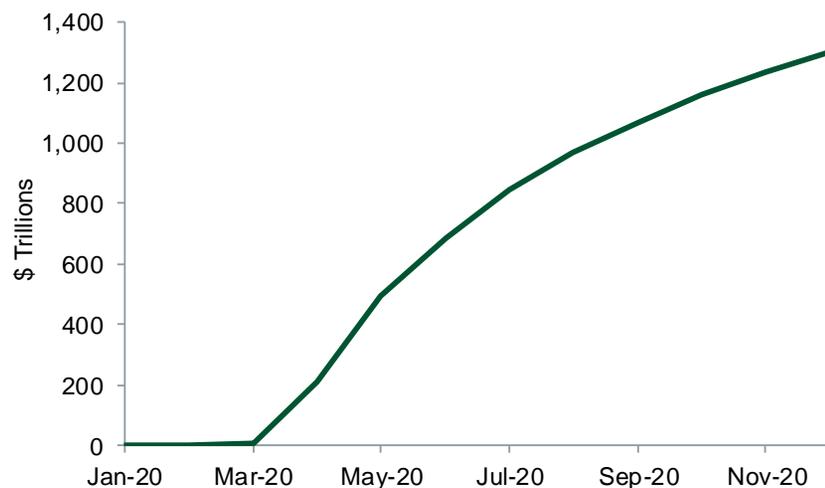
- COVID-19 lockdowns caused unprecedented labor market stress:
  - At over 75 million, initial jobless claims in 2020 were double that of any other year as unemployment surged past 14%
  - While the labor market has healed significantly with unemployment below 7%, 10 million fewer Americans are working today than one year ago

- But consumers' income was preserved:
  - The economy weathered COVID-19 better than initially expected because massive fiscal stimulus temporarily separated job losses from income loss for many
  - As such, 2020 was the first time personal income rose during a recession, buoying the economy as we head into 2021

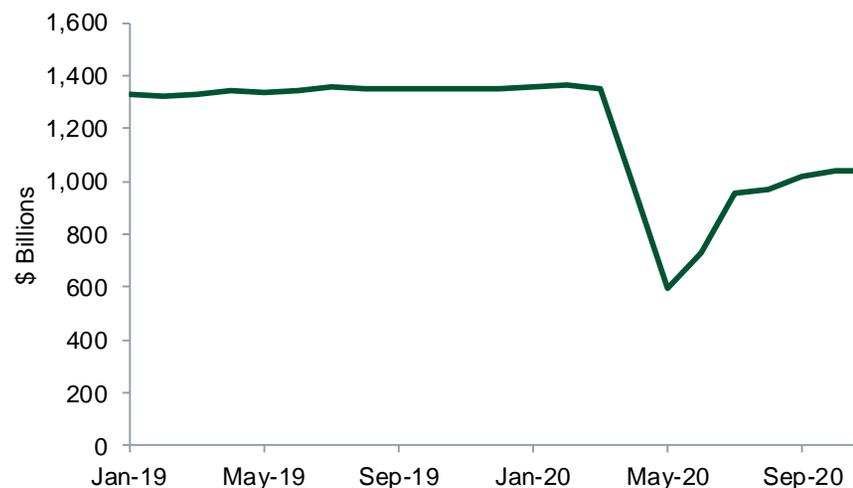
Source: (LHS) US Bureau of Labor Statistics, as of December 31, 2020; (RHS) Bureau of Economic Analysis, as of December 31, 2020.

## ...but better times ahead in 2021

### Excess personal savings



### Recreation & leisure spending



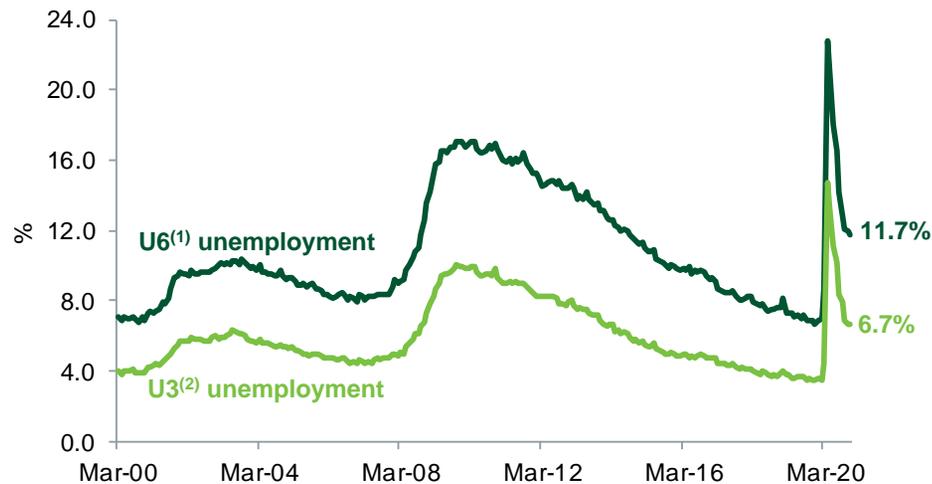
- Consumers have 'dry powder':
  - The combination of fiscal stimulus and lower discretionary spending has allowed consumers to stockpile over \$1.3 trillion in personal savings
  - With the December COVID-19 relief package poised to add \$400+ billion to personal income, these savings will continue to rise until consumers can return to 'normal' recreation spending levels
- Recreation and leisure spending can surge post-vaccine:
  - While recreation and leisure account for just 7% of GDP, they account for 50% of the 2020 decline in GDP
  - As consumers use savings to meet significant pent-up demand for these activities, growth could accelerate past 6% in the second half

Source: (LHS) Bureau of Economic Analysis, as of December 31, 2020; (RHS) Bureau of Economic Analysis, as of November 30, 2020

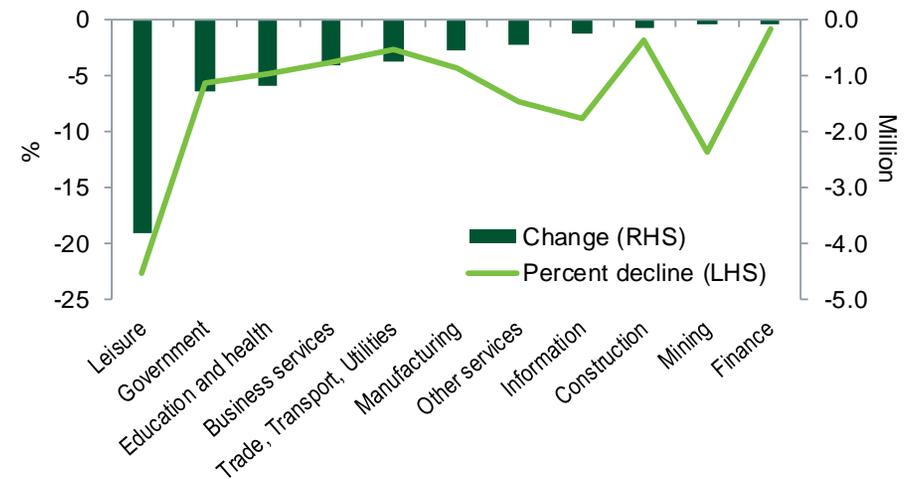
# Although improving, the US labor market needs additional ‘healing’ to reach pre-COVID levels



## US unemployment rate



## Non-farm payroll employment, YoY change



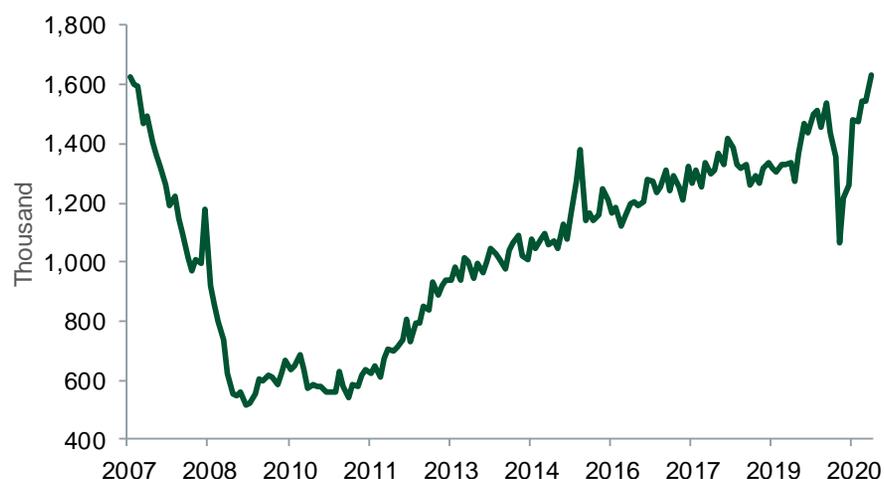
- Labor markets have healed significantly:
  - The U3 unemployment rate has fallen by 8% since April, though the pace of improvement has stalled
  - The potential for large corporations, which had instituted ‘firing freezes’ post-COVID, to initiate layoffs poses a downside risk to further job gains

- Significant job losses led to 9 million fewer jobs:
  - The leisure sector has shed nearly 3.9 million jobs while state governments have cut another 1 million
  - Given most job losses are in ‘virus sensitive’ sectors, the labor market is unlikely to improve further prior to widespread vaccination

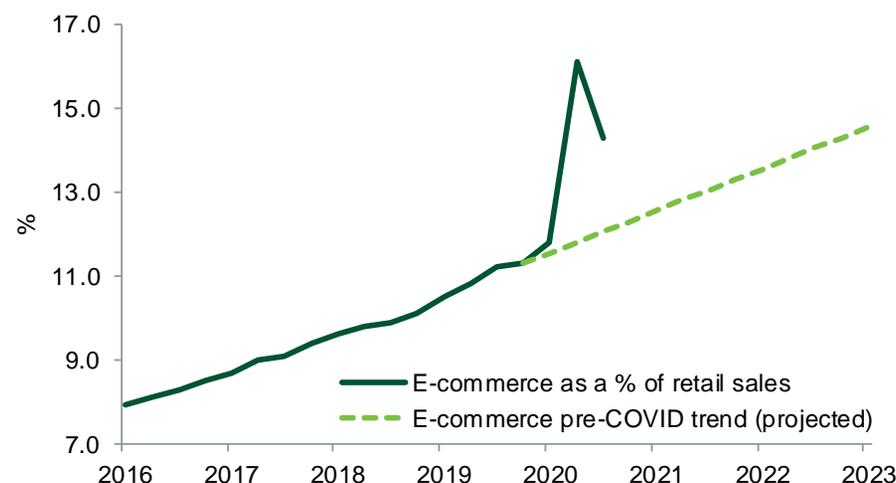
Source: (LHS) Federal Reserve Bank of St. Louis, as of December 31, 2020; (RHS) Bureau of Labor Statistics. <sup>1</sup> U6 unemployment rate includes discouraged workers who have quit looking for a job and part-time workers who are seeking full-time employment. <sup>2</sup> U3 official unemployment rate.

# Personal consumption – a source of strength

## Building permits



## E-commerce<sup>1</sup>



- Housing demand is a significant bright spot:
  - Low interest rates and migration trends into suburbs have boosted housing sales with construction activity set to return to 2006 levels in 2021, potentially adding 0.25% to GDP
  - As such, strength in housing will support increased demand for associated products, particularly durable goods like furniture, appliances, and autos

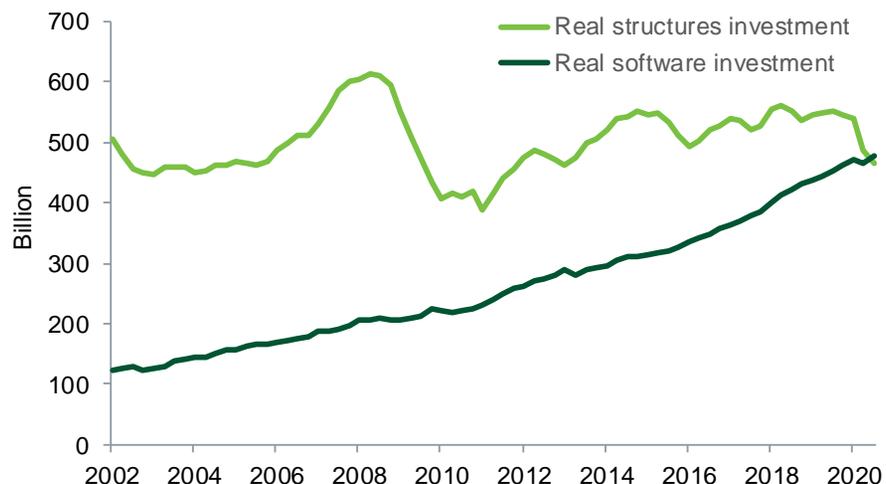
- How we consume is permanently changing:
  - Given public health restrictions, consumers have accelerated their shift online, bringing e-commerce penetration to a level not expected until 2023
  - This shift is unlikely to reverse, which will be a headwind for physical retailers, malls, and retail employment while boosting the logistics sector

Source: (LHS) Census Bureau, as of December 31, 2020; (RHS) Federal Reserve Bank of St. Louis, as of December 31, 2020.

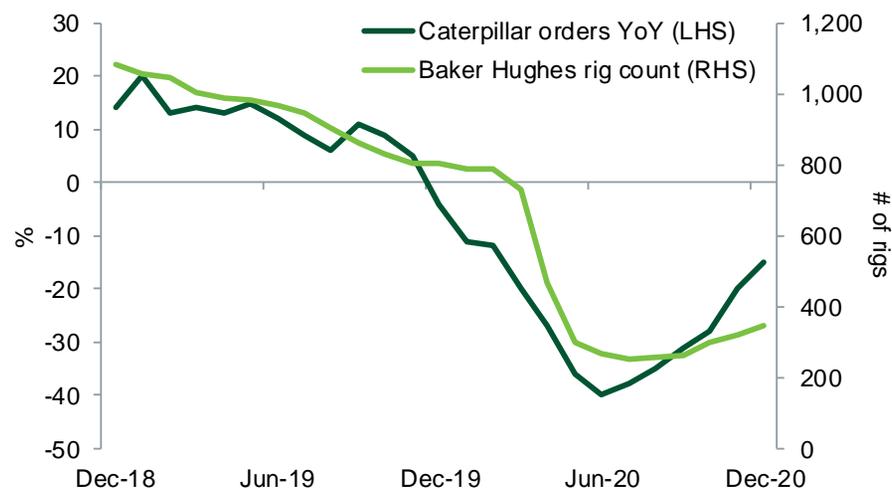
<sup>1</sup> Insight estimate based on the change in e-commerce share from 2015 to March 2020. e-commerce: commercial transactions conducted electronically over the internet.

# 'Work from home' environment creates sector divergence

## A regime change in business investment



## CAT orders

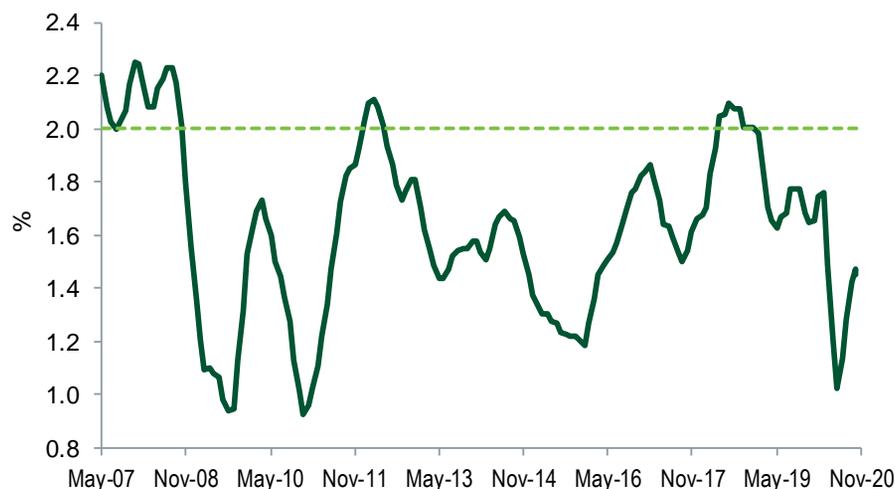


- The nature of business investment has changed:
  - After years of fast growth, intellectual property (IP) investment has passed spending on structures<sup>1</sup> as technology becomes a larger share of corporate spending
  - With a large portion of the IP market, the US economy is well positioned for this secular shift, though it may mean that investment growth generates less employment growth
- 'Legacy' business investment is past the trough:
  - Caterpillar orders, often a leading indicator of structures spending, have begun to perk up and would benefit further from infrastructure spending
  - After a significant decline in oil drilling activity as West Texas Intermediate (WTI) went negative in April 2020, the oil sector is normalizing and may boost growth in 2021

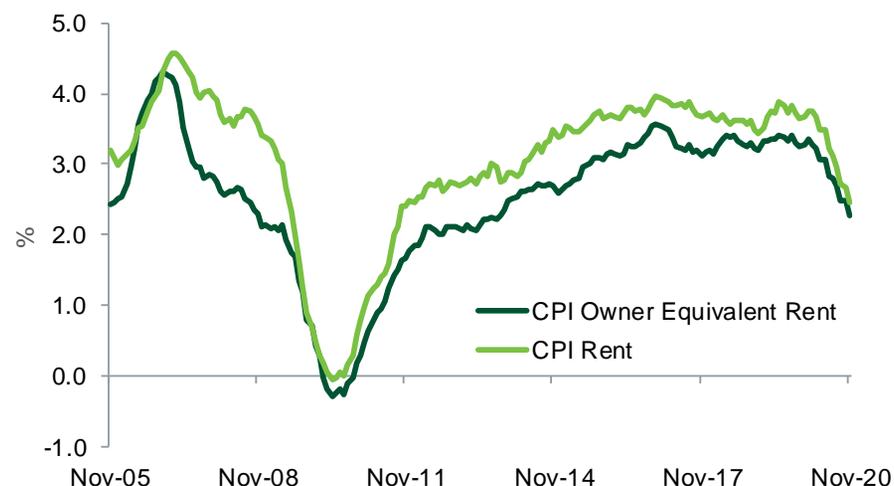
Source: (LHS) US Bureau of Economic Analysis as of December 31, 2020; (RHS) Bloomberg, as of December 31, 2020. <sup>1</sup> i.e., investments in commercial buildings, factories, etc.

# Inflation pressures remain benign for now...

## Core PCE<sup>1</sup>



## Rent is 30% of CPI and its biggest component<sup>2</sup>

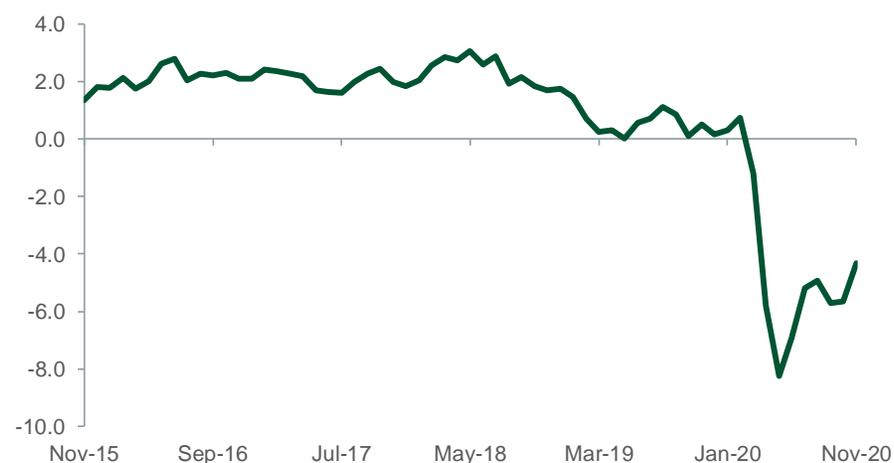


- Core PCE remains well below target:
  - However, it has recovered and should enjoy favorable base effects next year that temporarily push it over 2%
  - Still, we do not expect core PCE to be sustainably above target for several years, which means we are likely years from Fed tightening
- Migration trends are weighing on rent:
  - As consumers have moved out of cities, we have seen a significant deceleration in rents, which may persist through 2021
  - Shelter is the largest component of CPI, accounting for 33% of the index, so a deceleration in rents may cap the ability for inflation to sustainably hit the Fed's target

Source: (LHS) Bureau of Economic Analysis, as of December 31, 2020; (RHS) Bureau of Labor Statistics, as of December 31, 2020. <sup>1</sup> Core PCE price index measures the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends. <sup>2</sup> Flexible Price Consumer Price Index (CPI) is calculated from a subset of goods and services included in the CPI that change price relatively frequently.

## ...but inflation metrics should be watched

### COVID-sensitive CPI



### Trade Weighted Dollar<sup>1</sup>



- COVID-19 deflationary impact is fading:

- COVID-19 reduced pricing power in some sectors, like airlines, hotels, and theaters though some losses have been recouped
- A rebound in demand could translate to firmer prices, potentially boosting CPI by over 40 bps in 2021

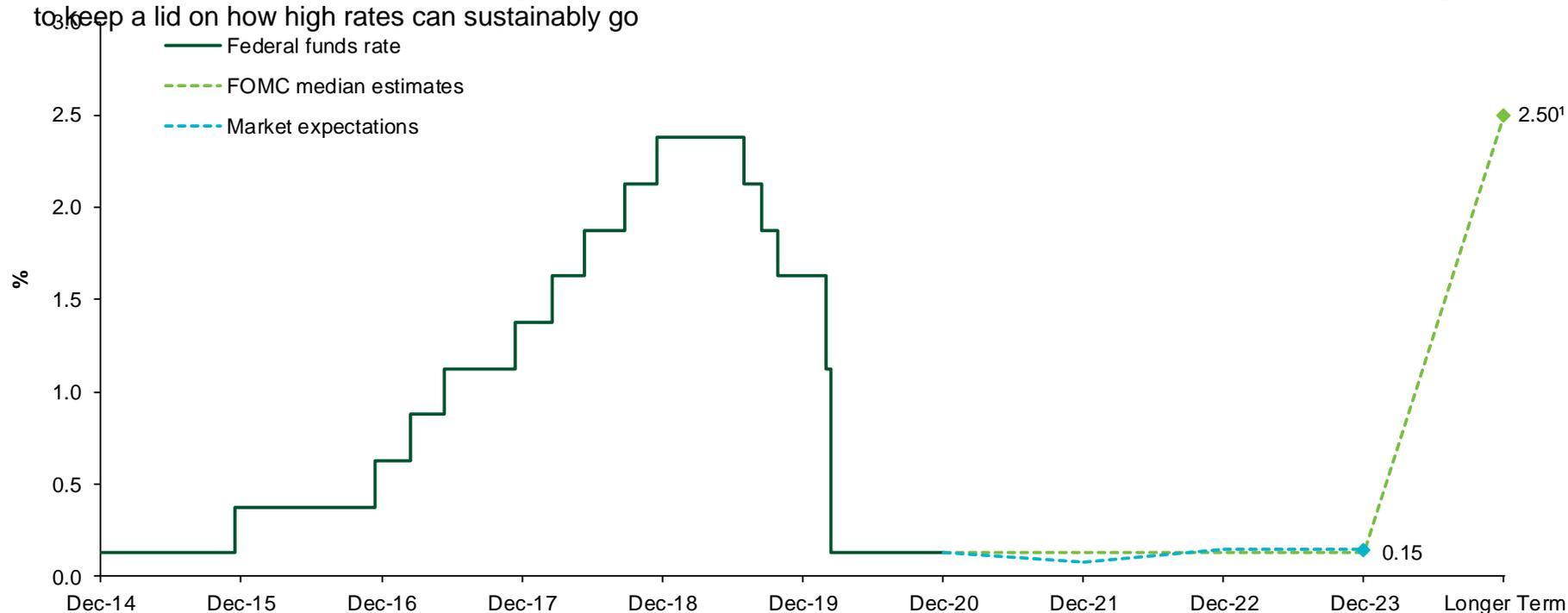
- Continued dollar weakness may boost prices:

- Global growth optimism and lower rate differentials led to significant weakening in the dollar over the past six months
- As imports are 15% of GDP, continued dollar weakness could lead to higher imported inflation

Source: (LHS) BLS, Insight as of December 31, 2020; (RHS) Bloomberg, as of December 31, 2020. <sup>1</sup> US Fed Trade Weighted Nominal Broad Dollar Index.

# The Fed will be patient

- We expect the Fed to keep interest rates unchanged at least through 2023 in its effort to facilitate an ‘overshoot’ of its 2% inflation target
- The Fed will likely continue its \$130 billion monthly QE program through 2021, with potential tapering through 2022
- While reflation hopes may push rates higher at times, a Fed committed to several years at 0% with an active QE program is likely to keep a lid on how high rates can sustainably go



Source: Bloomberg, as of December 16, 2020. Opinions expressed herein are as of the date stated, and are subject to change without notice. Insight assumes no responsibility to update such information or to notify a client of any changes. <sup>1</sup> 2.50% is the FOMC projection of the longer run neutral Fed Funds Rate. Any projections or forecasts contained herein are based upon certain assumptions considered reasonable. Projections are speculative in nature and some or all of the assumptions underlying the projections may not materialize or vary significantly from the actual results. Accordingly, the projections are only an estimate. Please refer to the important disclosures at the back of this presentation.

# Fiscal policy outlook

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## Potential policies

- **\$500bn to \$1trn in additional COVID relief**
  - Some state and local aid
  - Extended unemployment insurance
  - \$2,000 checks to individuals
- **A public option for health care insurance**
- **An unwind of one-third to one-half of the 2017 tax cuts**
  - Most measures to potentially take effect in 2022
  - Removal of the \$10,000 state and local tax (SALT) deduction cap for most taxpayers
- **~\$1.5trn in infrastructure spending over a decade with a focus tilted toward ‘green energy’**

## Unlikely policies

- End of the legislative filibuster
- A \$15 federal minimum wage
- Larger ~\$2.5trn (or more) COVID relief spending
- Medicare for all
- Big Tech antitrust regulation
- Expanding the Supreme Court
- Full repeal of the 2017 tax cuts
- More than \$2.5trn of infrastructure spending

*There will likely be 3-4% of incremental fiscal stimulus delivered to the US economy in 2021 while slim majorities will curtail tax increases and regulatory changes*

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## Fiscal policy impact on financial markets

Implementation	Policy	Market Impact
H1 2021	\$1 trillion in COVID relief	+++
H1 2021	Oil leasing moratorium	-
2021	\$1.5-2 trillion in infrastructure	++
2021	European tariff suspension	+
2022	Corporate tax rate to 25-28%	--
2022	Top tax rate to 39.6%	-
2022	Capital Gains tax rate to 28-30%	-
2023	Healthcare Public Option	-

**After being a significant tailwind to start 2021, fiscal policy is likely to be a headwind for capital markets in late 2021 and 2022**

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## Comparison annualized yields

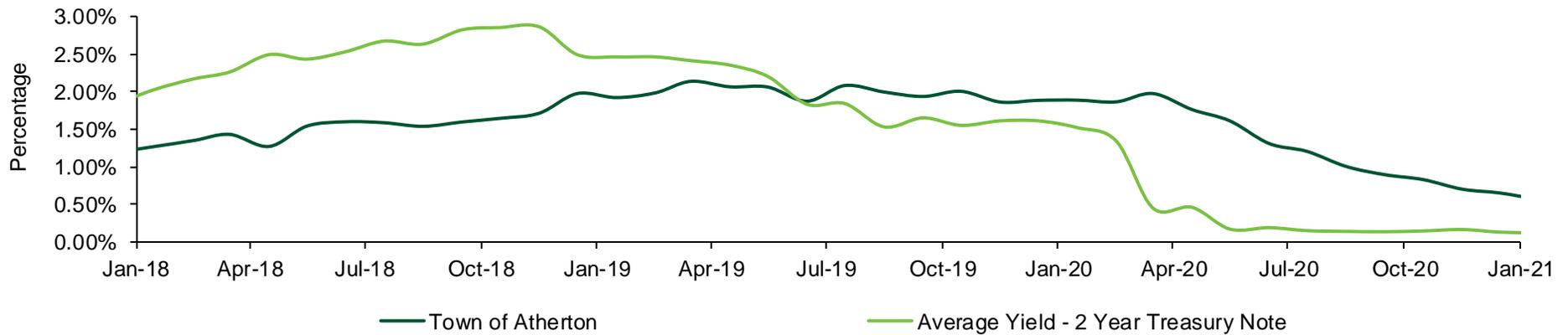
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## Comparison annualized yields

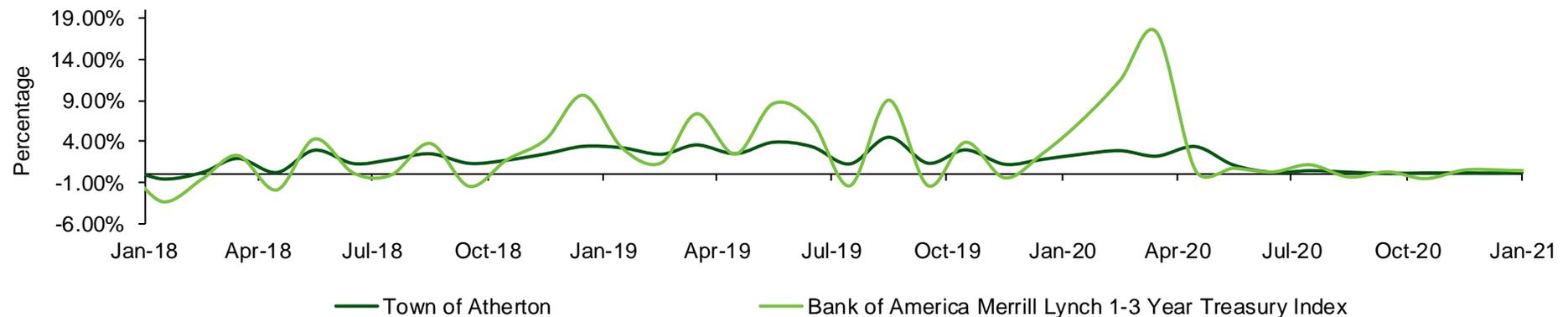
### December 2014 through January 2021



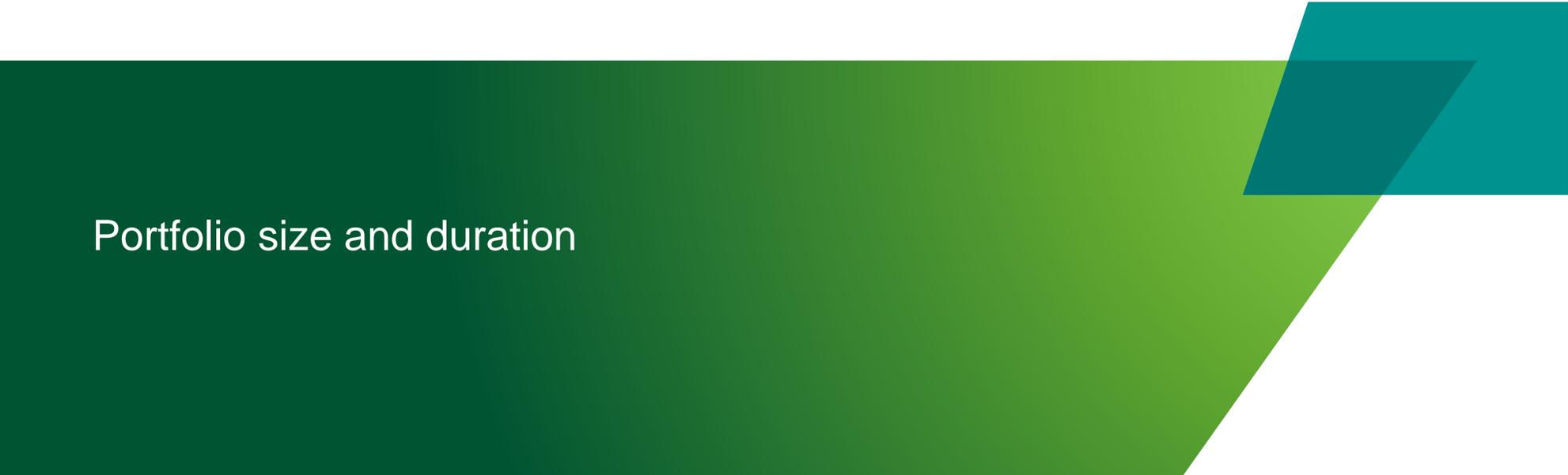
#### Annualized return: Amortized cost basis



#### Annualized return: Fair value basis



As of January 31, 2021. **Past performance is not indicative of future results.** Investment in any strategy involves a risk of loss. Returns are gross of fees. Performance results do not reflect the deduction of investment advisory fees. Client's returns will be reduced by the investment advisory fees and other expenses. Please refer to the important disclosures and index definition at the back of this presentation.

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## Portfolio size and duration

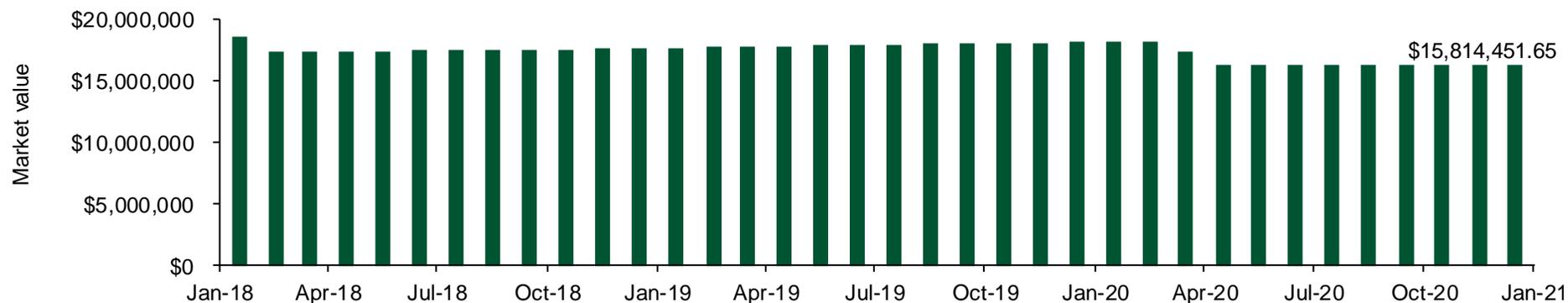
# Town of Atherton

## Portfolio size and duration

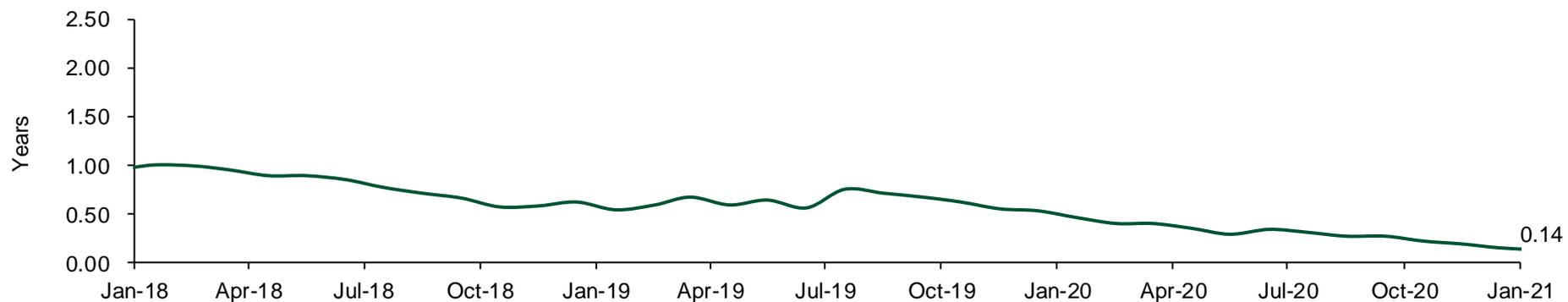
### December 2014 through January 2021



#### Portfolio balance: Ending market value



#### Portfolio duration



As of January 31, 2021.

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## Performance versus benchmark

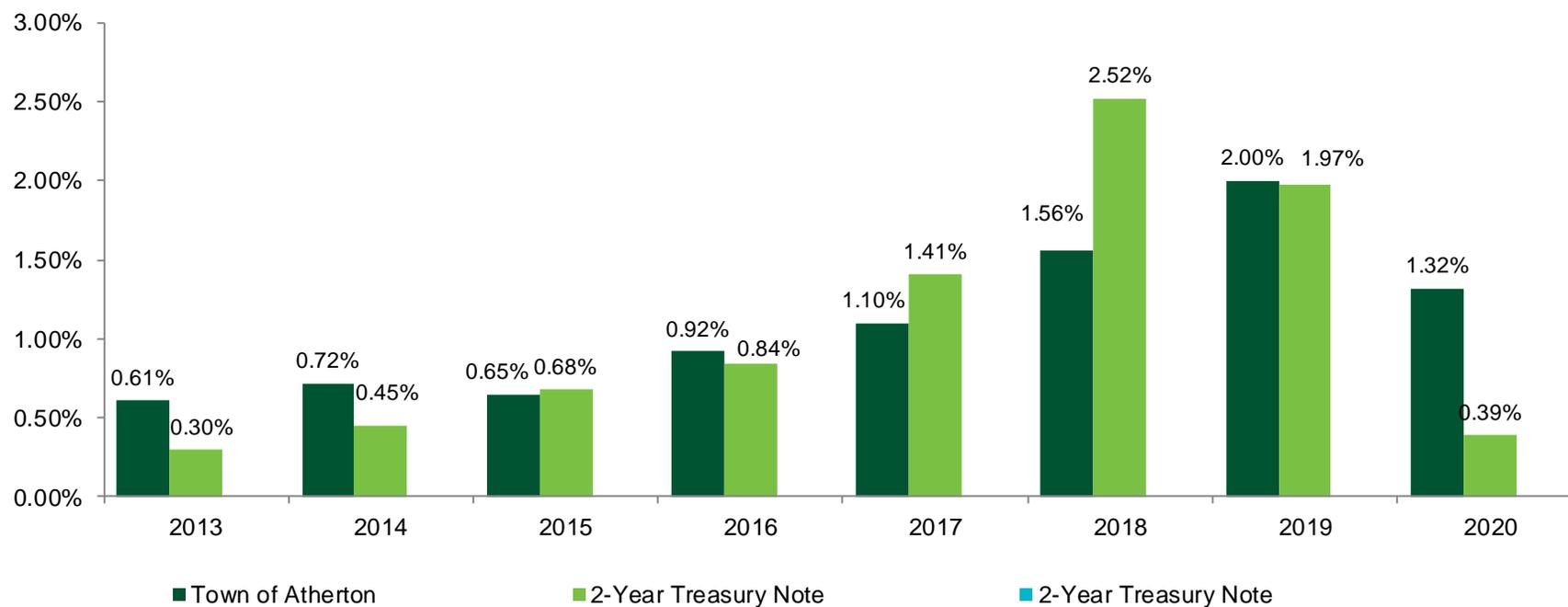
# Town of Atherton

## Performance versus benchmark

### January 2013 through December 2020



#### Town of Atherton amortized cost return versus 2 Year Treasury Note



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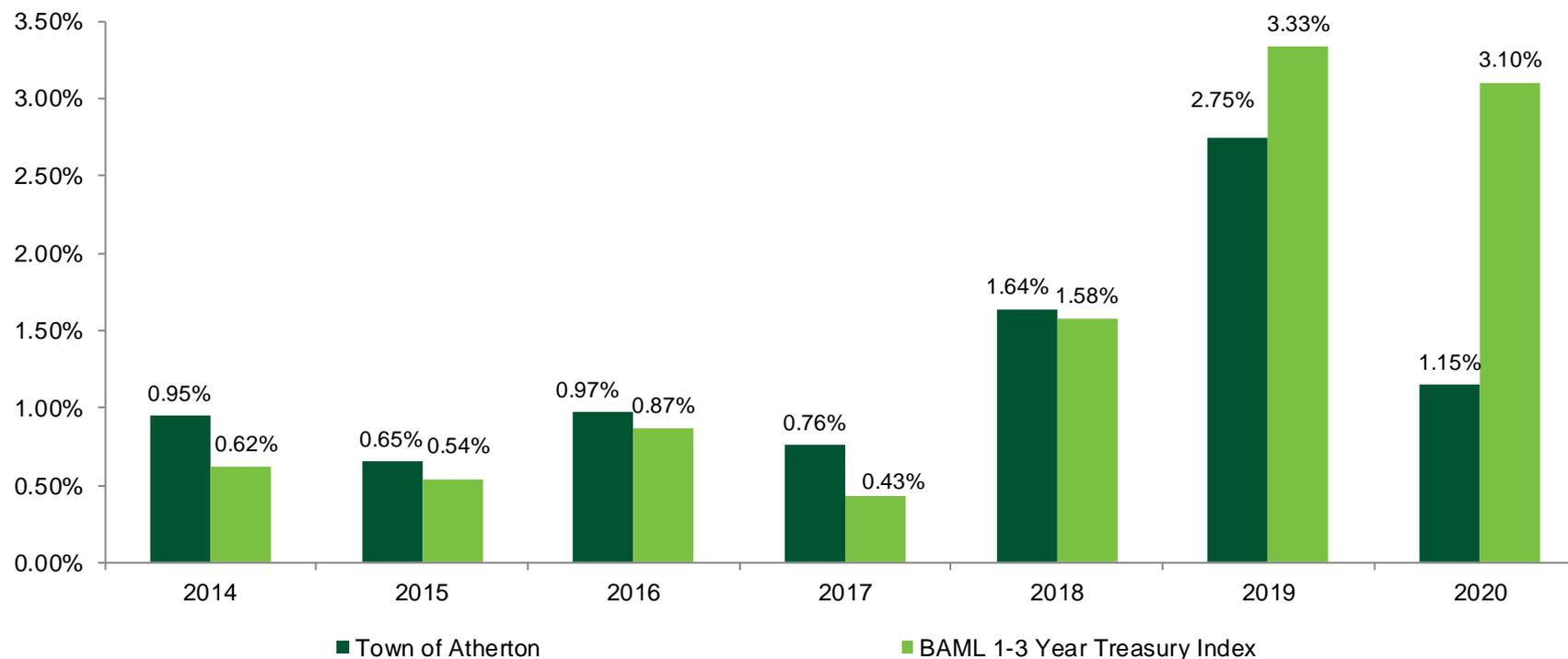
# Town of Atherton

## Performance versus benchmark

### January 2014 through August 2020



### Town of Atherton fair value return versus Bank of America Merrill Lynch 1-3 Year Treasury Index



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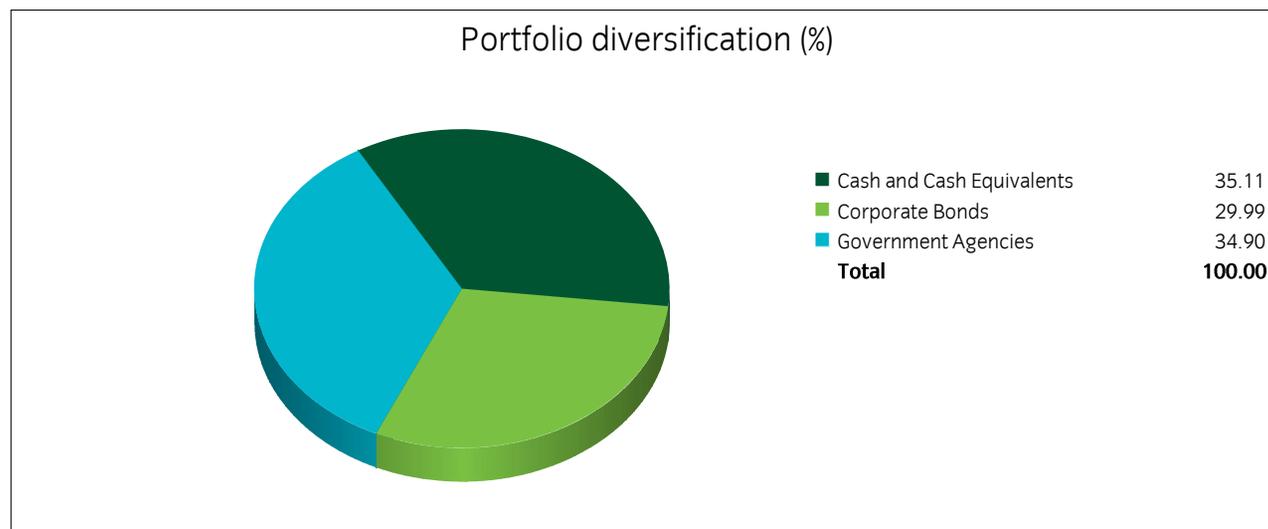
## Portfolio diversification

The following data may not total 100% due to rounding. The list of holdings is only valid as of January 31, 2021 and should not be relied upon as a complete listing of the account's past investment decisions. Holdings are subject to change without notice, may not represent current or future decisions and should not be construed as investment recommendations.

# RECAP OF SECURITIES HELD

As of January 31, 2021

	Historical cost	Amortized cost	Fair value	Unrealized gain (loss)	Weighted average final maturity (days)	Percent of portfolio	Weighted average effective duration (years)
Cash and Cash Equivalents	5,545,003.01	5,545,003.01	5,545,003.01	0.00	1	35.11	0.00
Corporate Bonds	4,736,928.30	4,719,645.40	4,723,838.95	4,193.55	74	29.99	0.18
Government Agencies	5,512,978.10	5,486,641.17	5,495,444.84	8,803.67	86	34.90	0.23
<b>Total</b>	<b>15,794,909.41</b>	<b>15,751,289.58</b>	<b>15,764,286.80</b>	<b>12,997.22</b>	<b>52</b>	<b>100.00</b>	<b>0.14</b>



## Maturity distribution

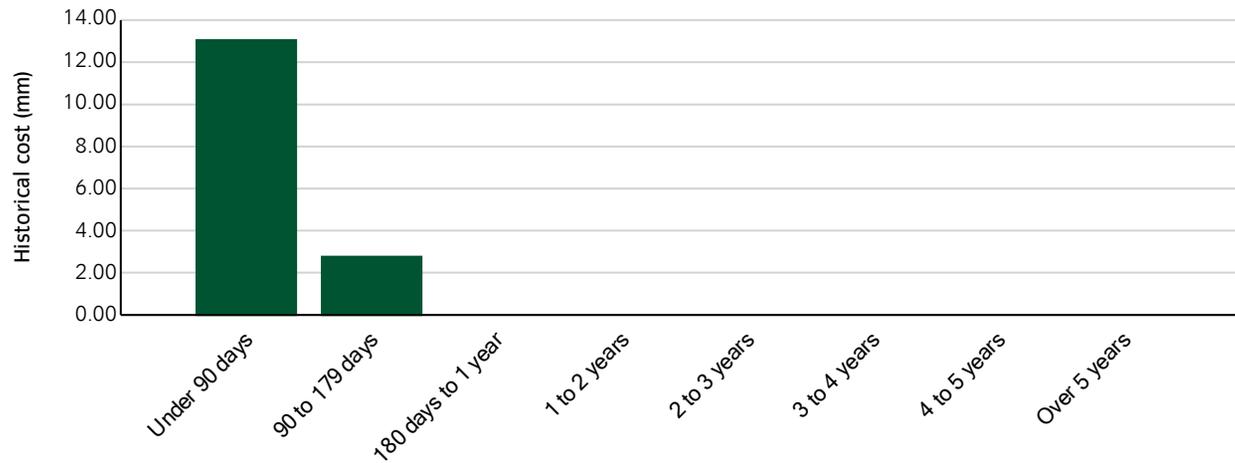
The following data is only valid as of January 31, 2021 and may not total 100% due to rounding.

# MATURITY DISTRIBUTION OF SECURITIES HELD

As of January 31, 2021

Maturity	Historic cost	Percent
Under 90 days	13,021,150.11	82.44
90 to 179 days	2,773,759.30	17.56
180 days to 1 year	0.00	0.00
1 to 2 years	0.00	0.00
2 to 3 years	0.00	0.00
3 to 4 years	0.00	0.00
4 to 5 years	0.00	0.00
Over 5 years	0.00	0.00
	<b>15,794,909.41</b>	<b>100.00</b>

Maturity distribution



# Holdings

The following list of holdings is only valid as of January 31, 2021 and should not be relied upon as a complete listing of past investment decisions. Holdings are subject to change without notice, may not represent current or future decisions and should not be construed as investment recommendations.

# SECURITIES HELD

TOWN OF ATHERTON

## As of January 31, 2021

Cusip	Description	Coupon	Maturity/ Call date	Par value or shares	Historical cost	Amortized cost	Fair value	Unrealized gain (loss)	Total accrued interest	% Port cost
<b>Cash and Cash Equivalents</b>										
	Cash and Cash Equivalents	0.000		5,545,003.01	5,545,003.01	5,545,003.01	5,545,003.01	0.00	0.00	35.11
<b>Total Cash and Cash Equivalents</b>				<b>5,545,003.01</b>	<b>5,545,003.01</b>	<b>5,545,003.01</b>	<b>5,545,003.01</b>	<b>0.00</b>	<b>0.00</b>	<b>35.11</b>
<b>Corporate Bonds</b>										
46625HQJ2	JPMORGAN CHASE & CO 2.55% 01MAR2021 (CALLABLE 18FEB21)	2.550	03/01/2021	600,000.00	606,276.00	600,000.00	600,600.00	600.00	6,375.00	3.84
949746RS2	WELLS FARGO & COMPANY 2.5% 04MAR2021	2.500	03/04/2021	600,000.00	607,884.00	601,191.36	601,169.77	(21.59)	6,125.00	3.85
084670BQ0	BERKSHIRE HATHAWAY INC 2.2% 15MAR2021 (CALLABLE 08MAR21)	2.200	03/15/2021 02/15/2021	680,000.00	681,604.80	680,046.18	681,163.60	1,117.42	5,651.56	4.32
14913Q2H1	CATERPILLAR FINL SERVICE FRN 15MAR2021	0.447	03/15/2021	500,000.00	500,675.00	500,119.94	500,158.50	38.56	291.47	3.17
06051GFW4	BANK OF AMERICA CORP 2.625% 19APR2021	2.625	04/19/2021	600,000.00	605,436.00	603,106.29	603,184.01	77.72	4,462.50	3.83
69353REW4	PNC BANK NA 2.15% 29APR2021 (CALLABLE 30MAR21)	2.150	04/29/2021 03/30/2021	650,000.00	648,557.00	649,793.86	652,103.84	2,309.98	3,571.39	4.11
89236TBJ3	TOYOTA MOTOR CREDIT CORP 2.75% 17MAY2021	2.750	05/17/2021	425,000.00	428,247.00	428,187.42	428,173.77	(13.65)	2,434.90	2.71
68389XBA2	ORACLE CORP 2.8% 08JUL2021	2.800	07/08/2021	650,000.00	658,248.50	657,200.35	657,285.46	85.11	1,162.78	4.17
<b>Total Corporate Bonds</b>				<b>4,705,000.00</b>	<b>4,736,928.30</b>	<b>4,719,645.40</b>	<b>4,723,838.95</b>	<b>4,193.55</b>	<b>30,074.60</b>	<b>29.99</b>

# SECURITIES HELD

As of January 31, 2021

Cusip	Description	Coupon	Maturity/ Call date	Par value or shares	Historical cost	Amortized cost	Fair value	Unrealized gain (loss)	Total accrued interest	% Port cost
<b>Government Agencies</b>										
3130AJS5	FEDERAL HOME LOAN BANK 0.18% 26MAR2021	0.180	03/26/2021	1,300,000.00	1,299,987.00	1,299,997.22	1,300,101.53	104.31	227.50	8.23
3133EJD2	FEDERAL FARM CREDIT BANK 2.54% 05APR2021	2.540	04/05/2021	1,500,000.00	1,507,357.30	1,503,039.22	1,506,769.41	3,730.19	12,276.67	9.54
3135G0U27	FANNIE MAE 2.5% 13APR2021	2.500	04/13/2021	1,000,000.00	1,018,370.00	1,004,786.55	1,004,695.13	(91.42)	7,500.00	6.45
3133EKPS9	FEDERAL FARM CREDIT BANK 2.125% 07JUN2021	2.125	06/07/2021	500,000.00	506,905.00	503,521.83	503,634.78	112.95	1,593.75	3.21
3130A1W95	FEDERAL HOME LOAN BANK 2.25% 11JUN2021 #0000	2.250	06/11/2021	670,000.00	670,763.80	670,135.40	675,019.00	4,883.60	2,093.75	4.25
3135G0U35	FANNIE MAE 2.75% 22JUN2021	2.750	06/22/2021	500,000.00	509,595.00	505,160.95	505,224.99	64.04	1,489.58	3.23
<b>Total Government Agencies</b>				<b>5,470,000.00</b>	<b>5,512,978.10</b>	<b>5,486,641.17</b>	<b>5,495,444.84</b>	<b>8,803.67</b>	<b>25,181.25</b>	<b>34.90</b>
<b>Grand total</b>				<b>15,720,003.01</b>	<b>15,794,909.41</b>	<b>15,751,289.58</b>	<b>15,764,286.80</b>	<b>12,997.22</b>	<b>55,255.85</b>	<b>100.00</b>

## Yield report

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# SECURITIES HELD

TOWN OF ATHERTON

## As of January 31, 2021

Cusip	Description	Coupon	Maturity	Par value or shares	Historical cost	Trade date	Purchase yield	% Portfolio hist cost
<b>Cash and Cash Equivalents</b>								
	Cash and Cash Equivalents			5,545,003.01	5,545,003.01			35.11
<b>Total Cash and Cash Equivalents</b>				<b>5,545,003.01</b>	<b>5,545,003.01</b>			<b>35.11</b>
<b>Corporate Bonds</b>								
46625HQJ2	JPMORGAN CHASE & CO	2.550	03/01/2021	600,000.00	606,276.00	08/13/2020	0.60	3.84
949746RS2	WELLS FARGO AND CO	2.500	03/04/2021	600,000.00	607,884.00	07/20/2020	0.36	3.85
084670BQ0	BERKSHIRE HATHAWAY INC	2.200	03/15/2021	680,000.00	681,604.80	07/30/2019	2.05	4.32
14913Q2H1	CATERPILLAR FINANCIAL SERVICES	0.447	03/15/2021	500,000.00	500,675.00	07/16/2020	0.34	3.17
06051GFW4	BANK OF AMERICA CORP - BOA	2.625	04/19/2021	600,000.00	605,436.00	11/30/2020	0.24	3.83
69353REW4	PNC BANK NA	2.150	04/29/2021	650,000.00	648,557.00	07/30/2019	2.28	4.11
89236TBJ3	TOYOTA MOTOR CREDIT CORP	2.750	05/17/2021	425,000.00	428,247.00	01/29/2021	0.13	2.71
68389XBA2	ORACLE CORP	2.800	07/08/2021	650,000.00	658,248.50	01/08/2021	0.20	4.17
<b>Total Corporate Bonds</b>				<b>4,705,000.00</b>	<b>4,736,928.30</b>		<b>0.84</b>	<b>29.99</b>
<b>Government Agencies</b>								
3130AJS65	FEDERAL HOME LOAN BANKS	0.180	03/26/2021	1,300,000.00	1,299,987.00	06/30/2020	0.18	8.23
3133EJJD2	FEDERAL FARM CREDIT BANKS FUNDING CORP	2.540	04/05/2021	800,000.00	800,831.20	03/14/2019	2.48	5.07
3133EJJD2	FEDERAL FARM CREDIT BANKS FUNDING CORP	2.540	04/05/2021	700,000.00	706,526.10	11/13/2020	0.11	4.47
3135G0U27	FEDERAL NATIONAL MORTGAGE ASSOCIATION	2.500	04/13/2021	1,000,000.00	1,018,370.00	06/30/2020	0.15	6.45
3133EKPS9	FEDERAL FARM CREDIT BANKS FUNDING CORP	2.125	06/07/2021	500,000.00	506,905.00	09/29/2020	0.11	3.21
3130A1W95	FEDERAL HOME LOAN BANKS	2.250	06/11/2021	670,000.00	670,763.80	05/23/2019	2.19	4.25
3135G0U35	FEDERAL NATIONAL MORTGAGE ASSOCIATION	2.750	06/22/2021	500,000.00	509,595.00	09/29/2020	0.11	3.23
<b>Total Government Agencies</b>				<b>5,470,000.00</b>	<b>5,512,978.10</b>		<b>0.73</b>	<b>34.90</b>
<b>Grand Total</b>				<b>15,720,003.01</b>	<b>15,794,909.41</b>		<b>0.51</b>	<b>100.00</b>

## GASB 40

The following list of holdings is only valid as of January 31, 2021 and should not be relied upon as a complete listing of past investment decisions. Holdings are subject to change without notice, may not represent current or future decisions and should not be construed as investment recommendations.

# GASB 40 - DEPOSIT AND INVESTMENT RISK DISCLOSURE

TOWN OF ATHERTON

As of January 31, 2021

Cusip	Description	Coupon	Maturity date	Call date	S&P rating	Moody rating	Par value or shares	Historical cost	% Portfolio hist cost	Market value	% Portfolio mkt value	Effective dur (yrs)
<b>Cash and Cash Equivalents</b>												
	INVESTED CASH	0.000					5,975,684.91	5,975,684.91	0.00	5,975,684.91	37.91	0.00
	PENDING TRADE	0.000					0.00	(430,681.90)	0.00	(430,681.90)	(2.73)	0.00
<b>Issuer total</b>							<b>5,975,684.91</b>	<b>5,545,003.01</b>	<b>0.00</b>	<b>5,545,003.01</b>	<b>35.17</b>	<b>0.00</b>
<b>Federal Farm Credit Banks Funding Corp</b>												
3133EJJD2	FEDERAL FARM CREDIT	2.540	04/05/2021		AA+	Aaa	1,500,000.00	1,507,357.30	9.54	1,506,769.41	9.56	0.18
3133EKPS9	FEDERAL FARM CREDIT	2.125	06/07/2021		AA+	Aaa	500,000.00	506,905.00	3.21	503,634.78	3.19	0.35
<b>Issuer total</b>							<b>2,000,000.00</b>	<b>2,014,262.30</b>	<b>12.75</b>	<b>2,010,404.19</b>	<b>12.75</b>	<b>0.22</b>
<b>Federal Home Loan Banks</b>												
3130AJSG5	FEDERAL HOME LOAN	0.180	03/26/2021		AA+	Aaa	1,300,000.00	1,299,987.00	8.23	1,300,101.53	8.25	0.15
3130A1W95	FEDERAL HOME LOAN	2.250	06/11/2021		AA+	Aaa	670,000.00	670,763.80	4.25	675,019.00	4.28	0.36
<b>Issuer total</b>							<b>1,970,000.00</b>	<b>1,970,750.80</b>	<b>12.48</b>	<b>1,975,120.53</b>	<b>12.53</b>	<b>0.22</b>
<b>Federal National Mortgage Association</b>												
3135G0U27	FANNIE MAE 2.5%	2.500	04/13/2021		AA+	Aaa	1,000,000.00	1,018,370.00	6.45	1,004,695.13	6.37	0.20
3135G0U35	FANNIE MAE 2.75%	2.750	06/22/2021		AA+	Aaa	500,000.00	509,595.00	3.23	505,224.99	3.20	0.39
<b>Issuer total</b>							<b>1,500,000.00</b>	<b>1,527,965.00</b>	<b>9.67</b>	<b>1,509,920.12</b>	<b>9.58</b>	<b>0.26</b>
<b>Berkshire Hathaway Inc</b>												
084670BQ0	BERKSHIRE HATHAWAY	2.200	03/15/2021	02/15/2021	AA	Aa2	680,000.00	681,604.80	4.32	681,163.60	4.32	0.08
<b>Issuer total</b>							<b>680,000.00</b>	<b>681,604.80</b>	<b>4.32</b>	<b>681,163.60</b>	<b>4.32</b>	<b>0.08</b>
<b>Oracle Corp</b>												
68389XBA2	ORACLE CORP 2.8%	2.800	07/08/2021		A	A3	650,000.00	658,248.50	4.17	657,285.46	4.17	0.44
<b>Issuer total</b>							<b>650,000.00</b>	<b>658,248.50</b>	<b>4.17</b>	<b>657,285.46</b>	<b>4.17</b>	<b>0.44</b>

# GASB 40 - DEPOSIT AND INVESTMENT RISK DISCLOSURE

TOWN OF ATHERTON

As of January 31, 2021

Cusip	Description	Coupon	Maturity date	Call date	S&P rating	Moody rating	Par value or shares	Historical cost	% Portfolio hist cost	Market value	% Portfolio mkt value	Effective dur (yrs)
<b>PNC Bank NA</b>												
69353REW4	PNC BANK NA 2.15%	2.150	04/29/2021	03/30/2021	A	A2	650,000.00	648,557.00	4.11	652,103.84	4.14	0.16
<b>Issuer total</b>							<b>650,000.00</b>	<b>648,557.00</b>	<b>4.11</b>	<b>652,103.84</b>	<b>4.14</b>	<b>0.16</b>
<b>Bank of America Corp</b>												
06051GFW4	BANK OF AMERICA CORP	2.625	04/19/2021		A-	A2	600,000.00	605,436.00	3.83	603,184.01	3.83	0.22
<b>Issuer total</b>							<b>600,000.00</b>	<b>605,436.00</b>	<b>3.83</b>	<b>603,184.01</b>	<b>3.83</b>	<b>0.22</b>
<b>Wells Fargo &amp; Co</b>												
949746RS2	WELLS FARGO &	2.500	03/04/2021		BBB+	A2	600,000.00	607,884.00	3.85	601,169.77	3.81	0.09
<b>Issuer total</b>							<b>600,000.00</b>	<b>607,884.00</b>	<b>3.85</b>	<b>601,169.77</b>	<b>3.81</b>	<b>0.09</b>
<b>JPMorgan Chase &amp; Co</b>												
46625HQJ2	JPMORGAN CHASE & CO	2.550	03/01/2021		A-	A2	600,000.00	606,276.00	3.84	600,600.00	3.81	0.08
<b>Issuer total</b>							<b>600,000.00</b>	<b>606,276.00</b>	<b>3.84</b>	<b>600,600.00</b>	<b>3.81</b>	<b>0.08</b>
<b>Caterpillar Financial Services Corp</b>												
14913Q2H1	CATERPILLAR FINL	0.447	03/15/2021		A	A3	500,000.00	500,675.00	3.17	500,158.50	3.17	0.12
<b>Issuer total</b>							<b>500,000.00</b>	<b>500,675.00</b>	<b>3.17</b>	<b>500,158.50</b>	<b>3.17</b>	<b>0.12</b>
<b>Toyota Motor Credit Corp</b>												
89236TBJ3	TOYOTA MOTOR CREDIT	2.750	05/17/2021		A+	A1	425,000.00	428,247.00	2.71	428,173.77	2.72	0.30
<b>Issuer total</b>							<b>425,000.00</b>	<b>428,247.00</b>	<b>2.71</b>	<b>428,173.77</b>	<b>2.72</b>	<b>0.30</b>
<b>Grand total</b>							<b>16,150,684.91</b>	<b>15,794,909.41</b>	<b>100.00</b>	<b>15,764,286.80</b>	<b>100.00</b>	<b>0.14</b>

# Important disclosures

## Index descriptions

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Information about the index shown here is provided to allow for comparison of the performance of the strategy to that of a certain well-known and widely recognized index. There is no representation that such index is an appropriate benchmark for such comparison. You cannot invest directly in an index and the index represented does not take into account trading commissions and/or other brokerage or custodial costs. The volatility of the index may be materially different from that of the strategy. In addition, the strategy's holdings may differ substantially from the securities that comprise the index shown.

Index	Description
<b>BofA Merrill Lynch 1-3 US Year Treasury Index</b>	The BofA Merrill Lynch 1-3 US Year Treasury Index is an unmanaged index that tracks the performance of the direct sovereign debt of the U.S. Government having a maturity of at least one year and less than three years.



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## **Town of Atherton**

# **Statement of Investment Policy**

The City Council of the Town of Atherton (the Town) has adopted this Investment Policy (the Policy) in order to establish the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, eligible investments and transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the funds of the Town. All Town funds will be invested in accordance with this Policy and with applicable sections of the California Government Code.

This Investment Policy was endorsed and adopted by the City Council on . It replaces any previous investment policy or investment procedures of the Town.

### **SCOPE**

The provisions of this Policy shall apply to all financial assets of the Town as accounted for in the Town's Comprehensive Annual Financial Report.

All cash shall be pooled for investment purposes. The investment income derived from the pooled investment account shall be allocated to the contributing funds based upon the proportion of the respective average balances relative to the total pooled balance. Investment income shall be distributed to the individual funds not less than annually.

### **OBJECTIVES**

The Town's funds shall be invested in accordance with all applicable Town codes and resolutions, California statutes, and Federal regulations, and in a manner designed to accomplish the following objectives, which are listed in priority order:

1. Preservation of capital and protection of investment principal.
2. Maintenance of sufficient liquidity to meet anticipated cash flows.
3. Attainment of a market rate of return.
4. Diversification to avoid incurring unreasonable market risks.

## **DELEGATION OF AUTHORITY**

The management responsibility for the Town's investment program is delegated annually by the City Council to the Treasurer, as provided for in California Government Code Section 53607. The Town's City Manager serves as the Treasurer shall work in conjunction with the Finance Director to conduct investment transactions and to manage the operation of the investment portfolio. No person may engage in an investment transaction except as expressly provided under the terms of this Policy.

The City Manager or designee shall develop administrative procedures and internal controls, consistent with this Policy, for the operation of the Town's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the Town.

The Town may engage the support services of outside investment advisors with respect to its investment program, so long as it can be demonstrated that these services produce a net financial advantage or necessary financial protection of the Town's financial resources.

## **PRUDENCE**

The standard of prudence to be used for managing the Town's investment program is California Government Code Section 53600.3, the prudent investor standard which states, "When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

The Town's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The Town recognizes that no investment is totally without risk and that the investment activities of the Town are a matter of public record. Accordingly, the Town recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the Town.

The City Manager or designee and authorized investment personnel acting in accordance with established procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion to the City Council and appropriate action is taken to control adverse developments.

## ETHICS AND CONFLICTS OF INTEREST

Elected officials and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the Town's investment program or could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Employees and investment officials shall subordinate their personal investment transactions to those of the Town. In addition, Town City Council members, the City Manager, and the Finance Director shall file a Statement of Economic Interests each year as required by California Government Code Section 87203 and regulations of the Fair Political Practices Commission.

## AUTHORIZED SECURITIES AND TRANSACTIONS

All investments and deposits of the Town shall be made in accordance with California Government Code Sections 16429.1, 53600-53609 and 53630-53686. Any revisions or extensions of these code sections will be assumed to be part of this Policy immediately upon being enacted.

The Town has further restricted the eligible types of securities and transactions as follows:

1. United States Treasury bills, notes or bonds with a final maturity not exceeding five years from the date of trade settlement.
2. Federal Instrumentality (government sponsored enterprise) debentures, discount notes, callable and step-up securities, with a final maturity not exceeding five years from the date of trade settlement.

No more than 25% of the Town's total portfolio shall be invested in any one instrumentality issuer.

3. Medium-Term Notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States, with a final maturity not exceeding five years from the date of trade settlement, and rated at least "A" or the equivalent by a nationally recognized statistical rating organization (NRSRO). The aggregate investment in medium-term notes shall not exceed 30% of the Town's total portfolio. In addition, "A" rated FDIC guaranteed corporate bonds are herein authorized, within the aforementioned diversification and maturity requirements.

No more than 5% of the Town's portfolio shall be invested in any one corporate issuer.

4. Negotiable Certificates of Deposit with a maturity not exceeding five years from the date of trade settlement, in state or nationally chartered banks or savings banks that are insured by the FDIC, subject to the limitations of California Government Code Section 53638. Certificates of Deposits may be purchased only from financial institutions that meet the credit criteria set forth in the section of this Investment Policy, "Selection of Banks and Savings Banks." Depending on their maturity, Negotiable Certificates of Deposit shall have a short-term rating of at least A-1+ or the equivalent by a NRSRO at the time of purchase.

5. Non-negotiable Certificates of Deposit and savings deposits with a maturity not exceeding five years from the date of trade settlement, in FDIC insured state or nationally chartered banks or savings banks that qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5. Deposits exceeding the FDIC insured amount shall be secured pursuant to California Government Code Section 53652.

The Town will limit its investment in certificates of deposit to \$250,000 per issuer.

No more than 10% of the portfolio shall be invested in any one issuer of certificates of deposit.

6. Prime Commercial Paper with a maturity not exceeding 270 days from the date of trade settlement with the highest letter and number rating as provided for by a NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either sub-paragraph A. or sub-paragraph B. below:

A. The entity shall (1) be organized and operating in the United States as a general corporation, (2) have total assets in excess of \$500,000,000 and (3) have debt other than commercial paper, if any, that is rated at least A or the equivalent by a NRSRO.

B. The entity shall (1) be organized within the United States as a special purpose corporation, trust, or limited liability company, (2) have program-wide credit enhancements, including, but not limited to, over collateralization, letters of credit or surety bond and (3) have commercial paper that is rated at least A-1 or the equivalent by a NRSRO.

No more than 5% of the Town's total portfolio shall be invested in the commercial paper of any one issuer, and the aggregate investment in commercial paper shall not exceed 25% of the Town's total portfolio.

7. Repurchase Agreements with a final termination date not exceeding 30 days collateralized by U.S. Treasury obligations or Federal Instrumentality securities listed in items 1 and 2 above with the maturity of the collateral not exceeding five years. For the purpose of this section, the term collateral shall mean purchased securities under the terms of the Town's approved Master Repurchase Agreement. The purchased securities shall have a minimum market value including accrued interest of 102% of the dollar value of the funds borrowed. Collateral shall be held in the Town's custodian bank, as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily.

Repurchase Agreements shall be entered into only with broker/dealers and who are recognized as Primary Dealers with the Federal Reserve Bank of New York, or with firms that have a Primary Dealer within their holding company structure. Primary Dealers approved as Repurchase Agreement counterparties shall have a short-term credit rating of at least A-1 or the equivalent and a long-term credit rating of at least A or the equivalent. Repurchase agreement counterparties shall execute a Town approved Master Repurchase Agreement with the Town. The City Manager or designee shall

maintain a copy of the Town's approved Master Repurchase Agreement and a list of the broker/dealers who have executed same.

8. State of California's Local Agency Investment Fund (LAIF), pursuant to California Government Code Section 16429.1. The aggregate investment in the pool shall not exceed 50% of the Town's total portfolio.
9. Money Market Funds registered under the Investment Company Act of 1940 that (1) are "no-load" (meaning no commission or fee shall be charged on purchases or sales of shares); (2) have a constant net asset value per share of \$1.00; (3) invest only in the securities and obligations authorized in the applicable California statutes and (4) have a rating of at least AAAM or the equivalent by at least two NRSROs. The aggregate investment in money market funds shall not exceed up to 50%20% of the Town's total portfolio.

Securities that have been downgraded to a level that is below the minimum ratings described herein may be sold or held at the City's discretion. The portfolio will be brought back into compliance with Investment Policy guidelines as soon as is practical.

The foregoing list of authorized securities and transactions shall be strictly interpreted. Any deviation from this list must be preapproved by resolution of the City Council.

### **INVESTMENT DIVERSIFICATION**

The Town shall diversify its investments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. Nevertheless, the asset allocation in the investment portfolio should be flexible depending upon the outlook for the economy, the securities markets and the Town's anticipated cash flow needs.

### **PORTFOLIO MATURITIES AND LIQUIDITY**

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. The Town will not invest in securities maturing more than five years from the date of trade settlement, unless the City Council has by resolution granted authority to make such an investment at least three months prior to the date of investment.

### **SELECTION OF BROKER/DEALERS**

The City Manager or designee shall maintain a list of broker/dealers approved for investment purposes, and it shall be the policy of the Town to purchase securities only from those brokers and the firms they represent. Each approved broker/dealer must possess an authorizing certificate from the California Commissioner of Corporations as required by Section 25210 of the California Corporations Code.

To be eligible, a firm must meet at least one of the following criteria:

1. be recognized as Primary Dealers by the Federal Reserve Bank of New York or have a primary dealer within their holding company structure, or
2. report voluntarily to the Federal Reserve Bank of New York, or
3. qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

The City Manager or designee will select broker/dealers on the basis of their expertise in public cash management and their ability to provide service to the Town's account.

The City may engage the services of investment advisory firms to assist in the management of the portfolio and investment advisors may utilize their own list of approved broker/dealers. Such broker/dealers will comply with the selection criteria above and the list of approved firms shall be provided to the City on an annual basis or upon request.

In the event that an external investment advisor is not used in the process of recommending a particular transaction in the Town's portfolio, each authorized broker/dealer shall submit and annually update a Town approved Broker/Dealer Information Request form that includes the firm's most recent financial statements.

The Town may purchase commercial paper from direct issuers even though they are not on the approved broker/dealer list as long as they meet the criteria outlined in Item 4 of the Authorized Securities and Transactions section of this Investment Policy.

## **COMPETITIVE TRANSACTIONS**

All investment transactions shall be conducted competitively with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid or offering prices shall be recorded.

If the Town is offered a security for which there is no other readily available competitive offering, then the City Manager or designee will document quotations for comparable or alternative securities.

## **SELECTION OF BANKS**

The City Manager or designee shall maintain a list of FDIC insured banks approved to provide depository and other banking services for the Town. To be eligible, a bank shall qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5 and shall secure deposits in excess of FDIC insurance coverage in accordance with California Government Code Section 53652.

## **SAFEKEEPING AND CUSTODY**

The City Manager or designee shall select one or more banks to provide safekeeping and custodial services for the Town. A Safekeeping Agreement approved by the Town shall be executed with each custodian bank prior to utilizing that bank's safekeeping services.

Custodian banks will be selected on the basis of their ability to provide services for the Town's account and the competitive pricing of their safekeeping related services.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. All securities shall be perfected in the name of the Town. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities purchased by the Town will be delivered by either book entry and will be held in third-party safekeeping by a Town approved custodian bank, or its Depository Trust Company (DTC) participant account.

## **PORTFOLIO PERFORMANCE**

The investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The performance of the Town's investments shall be compared to the average yield on the U.S. Treasury security that most closely corresponds to the portfolio's weighted average effective maturity. When comparing the performance of the Town's portfolio, its rate of return will be computed net of all fees and expenses.

## **REPORTING**

Quarterly, the City Manager or designee shall submit to the City Council a report of the investment earnings and performance results of the Town's investment portfolio. The report shall include the following information:

1. Investment type, issuer, date of maturity, par value and dollar amount invested in all securities, and investments and monies held by the Town;
2. A description of the funds, investments and programs;
3. A market value as of the date of the report (or the most recent valuation as to assets not valued monthly) and the source of the valuation;

4. A statement of compliance with this Policy or an explanation for non-compliance; and
5. A statement of the Town's ability to meet expenditure requirements for six months, and an explanation of why money will not be available if that is the case.

### **POLICY REVIEW**

This Investment Policy shall be adopted annually by resolution of the City Council. It shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity, yield and diversification and its relevance to current law and economic trends. Amendments to this Investment Policy shall be approved by resolution of the City Council.